

MSGN(343 (STXX) S4A *20/03/83* *00:49*
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CO-VE BORDER
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STATE

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FM AMCONSUL BARRANGUILLA
TO RLEHC/SECSTATE WASHDC 3651
INFO ZEN/AMEMBASSY BOGOTA 4665
RUEHCV/AMEMBASSY CARACAS 0348
RUEHCV/AMCONSUL MARACAIBO 0048
BT
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LIMITED OFFICIAL USE BARRANGUILLA 0097
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E.O. 12356: N/A
TAGS: ECON, ETRD, EFIA, CO, VE
SUBJECT: VENEZUELA'S DEVALUATION--EFFECT ON THE
ECONOMY OF COLOMBIA'S FRONTIER
1. SUMMARY: THE DEVALUATION OF THE BOLIVAR BY
VENEZUELA HAS SOWN CONFUSION IN COMMERCIAL AND
BANKING CIRCLES IN THE ZONE ALONG COLOMBIA'S
BORDER WITH VENEZUELA. 600,000 COLOMBIAN
GUEST WORKERS IN VENEZUELA HAVE UNDERGONE A
RUDE LOSS OF EARNING POWER AND SOME ARE LEAVING
BEFORE ANYTHING WORSE HAPPENS. THE FINANCIAL
SECTOR, FORMAL AND INFORMAL, AWAITS THE COLOMBIAN
CENTRAL BANK'S REOPENING TRADING IN BOLIVARES.
ON THE TRADE FRONT, WHILE SOME CONCERN EXISTS
AMONG BARRANGUILLA EXPORTERS, THE MAJOR IMPACT
HAS BEEN REGISTERED IN CUCUTA, A LARGE FRONTIER
CITY WHICH HAS DRAWN MAJOR SUSTENANCE FROM ITS
SALES TO VISITING VENEZUELAN SHOPPERS. THE
CLOTHING AND FOOD SECTORS ARE BADLY HIT, WITH
SALES AT A FRACTION OF FORMER LEVELS. AN AD HOC
COMMISSION OF GOC VICE MINISTERS HAS VISITED THE
CITY TO FRAME VARIOUS EMERGENCY MEASURES. THE
LONGER TERM OUTLOOK, HOWEVER, IS FAVORABLE TO
COLOMBIA'S FRONTIER MERCHANTS, AS VENEZUELAN
DIGEST THE IMPLICATIONS OF HIGH AIRTRAVEL
COSTS TO MIAMI AND DECIDE THAT COLOMBIA'S

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MSGNO 343 (STXX) S4A *20/03/83* *00:49*
 BORDER MARKETS ARE CHEAPER AFTER ALL. END
 SUMMARY

2. "WHEN VENEZUELA SNEEZES, THE COLOMBIAN FRONTIER CATCHES COLD". WITH THE EASTERN NEIGHBOR ACCOUNTING FOR 43 PCT OF COLOMBIA'S EXPORTS (USD 320 MILLION IN 1982, 3 TIMES THE EXPORTS TO THE SECOND PLACE USA) THERE IS LITTLE WONDER THAT THE GOV'S FREEZING OF FREE CONVERTABILITY OF THE BOLIVAR WITH THE DOLLAR ON FEB. 19 AND SUBSEQUENT DEVALUATION MEASURES HAVE HAD A MAGNIFIED EFFECT ALONG COLOMBIA'S COMMERCIAL FRONTIER EXTENDING FROM BARRANQUILLA THROUGH MAICAO, CUCUTA AND ARAUCA. THE UNCERTAINTY OF HOW THE VENEZUELAN MULTIPLE EXCHANGE RATE WOULD BE DEFINED AND OF WHAT THE COLOMBIAN CENTRAL BANK'S REACTIVE MEASURES WOULD BE HAS LED TO NEAR DISASTEROUS SHORT TERM EFFECTS ON BORDER FINANCIAL FLOWS, COLOMBIAN GUEST WORKERS, AND BORDER TRADERS. A RECENT TRIP TO CUCUTA AND DISCUSSION WITH BANKERS, COMMERCIAL ASSOCIATIONS AND MERCHANTS BOTH THERE AND IN BARRANQUILLA FORM THE BASIS OF THIS REPORT.

3. FINANCIAL EFFECTS--WHILE IMMEDIATELY AFTER THE SUDDEN VENEZUELAN MEASURES THE MAJORITY OF THE INFORMAL EXCHANGE PARLORS WOULD NOT TOUCH "BOLOS" AT ANY PRICE, BY THE TIME A WEEK WAS OUT A STREET "ELY" RATE HAD WORKED OUT AT 10 (PREVIOUSLY 16.3) PESOS TO THE BOLIVAR. NOW, AS IN FORMER DAYS, RESTAURANT BILLS IN CUCUTA ARE ROUTINELY PRESENTED IN BOLIVARES AS WELL AS THE NATIONAL CURRENCY. ALTHOUGH VENEZUELA'S GOVERNMENT HAS PROMISED THAT THE ATTRACTIVE 4.3 TO THE DOLLAR EXCHANGE RATE WILL BE USED TO EXTINGUISH SHORT-TERM COMMERCIAL DEBT OUTSTANDING AT THE TIME OF THE DEVALUATION, MANY BORDER TRADERS ANTICIPATE--AND WITH REASON--THAT COLLECTING AT 4.3 ON DEBT CONTRACTED ON CONTRABAND GOODS IS A LOST CAUSE. THE MAJOR FINANCIAL IMPACT OF THE SUDDEN VENEZUELAN MEASURES ON THE FRONTIER REGION, HOWEVER, IS NOT THE DEVALUATION ITSELF, BUT THE ENDING OF FREE CONVERTABILITY OF THE BOLIVAR AND THE COLOMBIAN CENTRAL BANK'S NATIONAL FIRST REACTION OF CEASING TO BUY OR SELL THE CURRENCY. BORDER TRADERS IN CUCUTA HAD BEEN USED TO END-RUNNING THEIR OWN COUNTRY'S CURRENCY CONTROLS BY TAKING THEIR EARNED BOLIVARES TO VENEZUELA'S NEIGHBORING SAN ANTONIO DE TACHIRA, TURNING THEM IN FOR DOLLARS, AND DEPOSITING THESE INTO MIAMI OR SWISS ACCOUNTS. NOT UNEXPECTEDLY, A BLACK MARKET IN DOLLARS IS DEVELOPING, AS ALL-AND-SUNDRY FLEE NOT ONLY FROM THE BOLIVAR BUT ALSO (TO A FAR LESSER DEGREE) FROM THE PESO--AND HEDGE AGAINST A SUDDEN OR AT LEAST ACCELERATED COLOMBIAN DEVALUATION.

4. EMPLOYMENT EFFECTS--MOST CLEARLY AFFECTED BY THE PROBABLY 88 PCT DROP IN THE VALUE OF THEIR EARNINGS ARE VENEZUELA'S 600,000 RESIDENT COLOMBIAN GUEST WORKERS AND THEIR FAMILIES. A DISPROPORTIONATE LIMITED OFFICIAL USE SECTION 02 OF 03 BARRANGUILL 0097
 PORTION OF WHOM COME FROM THE FRONTIER REGION.

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MSGNO 343 (STXX) 34A *20/03/83* *00:49*

THE TERMINATION OF FREE CONVERTABILITY AND THE WORKER'S CURRENT INABILITY TO SEND BANK DRAFTS TO THEIR RELATIVES BACK AT HOME IS A REAL BLOW, SAYS THE REGIONAL MANAGER OF THE VENEZUELAN-COLOMBIAN OWNED BANCO TEQUENDAMA, WHOSE BARRANQUILLA BRANCH USED TO CLEAR 15 OF THESE DRAFTS A DAY. THE SALAD DAYS FOR THESE EXPATRIATE WORKERS--TWO CHARTER JET-LOADS OF WHOM RETURNED TO VISIT BARRANQUILLA FOR CHRISTMAS HOLIDAYS LAST YEAR--ARE CLEARLY OVER. VENEZUELA'S 30 BOLIVAR DAILY MINIMUM WAGE HAS SUNK IN VALUE FROM USD 7.00 TO AROUND USD 4.20 AT THE EMERGING FREE MARKET EXCHANGE RATE. (AT USD 4.70 EQUIVALENT, COLOMBIA'S MINIMUM WAGE IS NOW ACTUALLY HIGHER.) THE FAMILIES FEAR THAT, AS IN NIGERIA, VENEZUELAN SAUVE-QUI-PEUT MEASURES MAY FALL FIRST ON THEIR BREAD-WINNERS. BUT THE ECONOMIC FORCES OF THE DEVALUATION ARE ALREADY AT WORK: IMMIGRATION OFFICIALS IN CUCUTA (COLOMBIA'S PRINCIPAL PORT OF ENTRY), WHO HAD COUNTED 3,648 DEPORTEES LAST YEAR, ARE NOW REGISTERING SOME 1,500 VOLUNTARILY DEPARTING COLOMBIAN WORKERS EACH WEEK. UNEMPLOYMENT IN THE FRONTIER AREAS (11 PCT FOR BARRANQUILLA LAST DECEMBER) SEEMS HEADED FOR A RISE.

5. TRADE--FACING THE DROP IN THE ACQUISITIVE POWER OF THE BOLIVAR, COLOMBIAN EXPORTERS OF BEEF, CLOTHING, SUGAR, CEMENT, ETC. ARE NERVOUS, WITH THE FEAR INCREASING IN INVERSE PROPORTION TO THE SIZE OF THE FIRM. GIANTS SUCH AS THE SANTODOMINGO-OWNED CEMENTOS DEL CARIBE IN BARRANQUILLA ARE FAIRLY EQUANIMOUS ABOUT THE PROSPECTS OF THEIR PRODUCT BEING KEPT ON VENEZUELA'S PREFERENTIAL 4.3-TO-THE-DOLLAR ESSENTIAL IMPORTS LIST. AT THE OTHER END OF THE SPECTRUM ARE THE THOUSANDS OF MICRO MERCHANTS AT MAICAO'S TEEMING "SAN ANDRESITOS" (CONTRABAND ELECTRONIC GOODS SHOPS) WHO FEAR VENEZUELAN AUTHORITIES CRACKING DOWN ON THAT PART OF THEIR THE NEARBY BORDER.

6. TRADE IMPACT ON CUCUTA--HOWEVER, IT IS TO CUCUTA, A CITY OF 350,000 ONLY 5 MINUTES FROM THE BORDER AND DEDICATED TO A LIVELY BORDER TRADE IN CLOTHING, SHOES, TIRES AND FRESH MEAT AND VEGETABLES, THAT THE CONCERNS OF THE DOMINANT MERCHANTS GROUP HAVE ATTRACTED NATIONAL ATTENTION. STYLING THEMSELVES AS THE "SHOW WINDOW" OF THE COLOMBIAN APPAREL AND FOOTWEAR INDUSTRY, THE RETAILERS OF THESE PRODUCTS CLAIM A DROP IN SALES OF UP TO 90 PERCENT DUE TO THE DISAPPEARANCE OF WEEKENDING VENEZUELAN SHOPPERS. THE BORDER REMAINS COMPLETELY OPEN AND CARS, PASSENGERS AND BAGGAGE WHISK ACROSS WITHOUT EVEN CURSORY INSPECTION: THE CUSTOMS FRONTIERS OF EACH COUNTRY ARE MILES AWAY. RIGHT AFTER THE DEVALUATION AND THE GOV'S FREEZING OF PRICES, SHARP-EYED COLOMBIAN BUYERS RUSHED ACROSS TO SAN ANTONIO TO SNAP UP CHEAP TVS AND BETAMAXES. MERCHANTS NOW HAVING WITHDRAWN THEIR GOODS FROM SALE OR RAISED THEIR PRICES ILLEGALLY, THIS SMALLER VENEZUELAN TOWN (STAFFED LARGELY BY PHONY-DOCUMENTED COLOMBIANS) FOR THE MOMENT IS COMMERCIALY DORMANT.

C O N F I D E N T I A L

MSGNC 343 (STXX) S4A *20/03/83* *00:49*

7. TRADE: SHORT TERM PROSPECTS--BACK IN CUCUTA THE MERCHANTS, OUTLET OF SOME 30 PERCENT OF COLOMBIA'S HIDDEN CLOTHING EXPORTS AND CAUGHT IN THE SUDDEN PLUMMETING OF DEMAND FOR THEIR "COMMERCIAL MONOCULTURE", AWAIT THE TRADITIONALLY BUSTLING 4-DAY EASTER WEEKEND (MARCH 30-APRIL 3)--SEEING IT AS THE BELLWETHER OF TIMES TO COME. OTHERS IN THE LOCAL CHAMBER OF COMMERCE AND FENALCO (RETAILERS) GROUPS HAVE WITH THE GOVERNOR MARGARITA SILVA DE URIBE, ALREADY SOUNDED THE TOCSIN ("SALES DOWN BY 75 PERCENT") AND ATTRACTED A HIGH LEVEL COMMISSION OF TRADE OFFICIALS BOTH GOVERNMENT AND PRIVATE TO THE CITY ON MARCH 2 TO HEAR THEIR PROPOSALS. THESE RANGE FROM SPECIAL CATS (TAX-REBATE CERTIFICATES) FOR THE BORDER TRADE AND REOPENING THE BUYING OF BOLIVARS BY THE CENTRAL BANK, THROUGH ELIMINATION OF SALES TAX (6 PCT BUT SOMETIMES MORE) FROM ALL FRONTIER SALES AND SPECIAL LINES OF CREDIT, TO TEN-YEAR TAX HOLIDAYS FOR NEW LOCAL INDUSTRIES.

8. TRADE: LONG TERM PROSPECTS--WHETHER OR NOT THE GOVERNMENT RESISTS THESE QUICK-FIX ARTISTS, A LIKELY NATURAL OUTCOME TO THE FRONTIERS TRADE PROBLEM APPEARS TO BE THAT OFFERED BY A THOUGHTFUL LIMITED OFFICIAL USE SECTION 03 OF 03 BARRANQUILLA 0097. CUCUTA MERCHANT, VIZ: AFTER THE VENEZUELAN HAVE DIGESTED THE ECONOMICS OF HIGHER AIRFARES TO A MORE EXPENSIVE MIAMI AND PANAMA (AND DEPENDING ON WHETHER SPECIAL EXCHANGE-RATE TREATMENT IS ACCORDED TO THE ISLA MARGARITA RETAILERS), THEY WILL DISCOVER THAT NEIGHBORING CUCUTA, AND TO A LESSER EXTENT MAICAO, ARE NOW THE CHEAPER ALTERNATIVE SOURCE AND THEY SHOULD RETURN, POSSIBLY IN GREATER NUMBERS, TO DO BUSINESS ALONG THE COLOMBIAN FRONTIER. COCLEY

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